

ANALYSIS OF AMENDED BILL

Author: Lowenthal Analyst: Nicole Kwon Bill Number: SB 763
 Related Bills: See Legislative History Telephone: 845-7800 Amended Date: January 4, 2006
 Attorney: Patrick Kusiak Sponsor: _____

SUBJECT:	Enterprise Zone, Manufacturing Enhancement Area, Targeted Tax Area & LAMBRA Tax Certificates/Department Of Housing & Community Development Charge Fee For Issuance Of Certificates
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SUMMARY

This bill would do the following:

- Extend to the Department of Housing and Community Development (DHCD) authority to assess and collect a fee related to all economic development areas (EDAs).
- Extend the sunset date for DHCD to assess and collect a fee for it.
- Direct DHCD to develop and adopt regulations that govern the issuance of vouchersing certificates by local governments to all EDAs.

SUMMARY OF AMENDMENTS

The January 4, 2006, amendments struck the previous provisions relating to a priority berthing program for ocean-going vessels and replaced them with the provisions related to EDAs.

This is the department's first analysis of the bill.

PURPOSE OF THE BILL

According to the author's office, the purpose of this bill is to make vouchersing rules applicable to various EDAs consistent in order to streamline administration.

EFFECTIVE/OPERATIVE DATE

This bill would be effective and operative January 1, 2007.

POSITION

Pending.

Board Position:

_____ S	_____ NA	_____ NP
_____ SA	_____ O	_____ NAR
_____ N	_____ OUA	_____ X PENDING

Department Director

S. Stanislaus

Date

02/21/06

ANALYSIS

STATE LAW

Under the Government Code, state law provides for several types of EDAs: Enterprise Zones (EZs), Manufacturing Enhancement Areas (MEAs), Targeted Tax Areas (TTAs), and Local Agency Military Base Recovery Areas (LAMBRAs).

Under the Revenue and Taxation Code, existing state law provides special franchise and income tax incentives for taxpayers conducting business activities within an EDA. These incentives include an income and franchise tax hiring credit for taxpayers operating in an EDA.

Taxpayers operating in an EDA are allowed the hiring credit for employing “qualified employees.” “Qualified employees” for EDAs are defined by reference to various state and federal public assistance programs. A taxpayer located in an EDA is allowed a credit of up to 50% of wages paid to “qualified employees.” The voucher certificates are issued by a local or state agency familiar with the public assistance statutes.

Existing state law allows local governments administering an EZ to issue vouchering certificates for the hiring credit. DHCD is authorized to develop regulations that govern the issuance of vouchering certificates by these local governments.

DHCD also has the authority, until July 1, 2006, to charge a fee of up to \$10 for each application for a hiring credit voucher certificate under the EZ in order to cover the costs of administering the program. If the Franchise Tax Board (FTB) rejects a vouchering certificate, DHCD is required to refund any fees assessed or collected.

For MEAs, LAMBRAs, and the TTA, the California Employment Development Department and the local entities that administer the Job Training Partnership Act and Greater Avenues of Independence Act have the authority to issue the voucher certificates. The voucher certificate indicates that the employee is qualified for or receiving any of the specified forms of public assistance and thus is a “qualified employee” for purposes of the hiring credit. Currently, there is no fee charged for each application for a hiring credit voucher certificate under the MEAs, LAMBRAs, and the TTA.

Taxpayers that claim the hiring credit are required to retain a copy of the voucher certificate for each of its “qualified employees.” Upon request of FTB, the taxpayer is required to provide a copy of the voucher certificate.

THIS BILL

This bill would direct DHCD to develop and adopt regulations governing the issuance of hiring credit voucher certificates by local governments. The regulations would apply to all EDAs.

This bill would authorize DHCD to assess and collect an administration fee of up to \$10 for each voucher certificate application for the MEAs, LAMBRAs, and TTA, in addition to the same fee for EZs that exists under current law. The fee is for the administrative costs incurred by DHCD for administering these programs.

This bill would extend the sunset date for DHCD to charge fees for vouchering certificates under EZs from July 1, 2006, to July 1, 2009. This bill would also establish the sunset date for DHCD to charge fees for vouchering certificates for the MEAs, LAMBRAs, and the TTA to July 1, 2009.

This bill would eliminate the requirement that DHCD refund any fees assessed or collected when FTB has rejected a vouchering certificate.

This bill made other nonsubstantive technical amendments.

IMPLEMENTATION CONSIDERATIONS

Implementing this bill is not expected to impact the department's programs or operations significantly.

TECHNICAL CONSIDERATION

On page 3, line 25, "Section 18053.47" should be changed to "Section 17053.47".

LEGISLATIVE HISTORY

SB 254 (Torlakson, 2005/2006) was identical to this bill. SB 254 was amended on June 13, 2005, to relate to a different subject matter.

SB 1097 (Senate Budget Comm., Stat. 2004, Ch. 225) authorized local governments to issue vouchering certificates and authorized DHCD to issue emergency regulations to govern local governments and assess a fee for the administration of the EZ hiring credit.

AB 2926 (Nakano, 2003/2004) would have revised and expanded the qualifying process for the hiring credit in EDAs. This bill failed passage in the Senate Housing and Community Development Committee.

AB 2895 (Committee on Revenue and Taxation, Stat. 2000, Ch. 864) amended the LAMBRA and the MEA hiring credit statutes to be consistent with the existing EZ and TTA statutes. Taxpayers are required to obtain a voucher for each newly hired employee, except with regard to the MEA hiring credit. No certification is required to claim the MEA hiring credit.

OTHER STATES' INFORMATION

Currently, 29 other states have EDAs that provide similar tax related incentives to those provided in California's EDAs. The number of EDAs varies from state to state. For example, California currently has 49 EDAs (that includes EZs (39), MEA (2), LAMBRA (7), and TTA (1)), New York has 71, Florida 51, Illinois 93, and Michigan 33.

Florida allows a county or municipality an authorization to grant an economic development tax exemption to new businesses and expansions of existing businesses. To get an economic development exemption, a qualifying business must file a written application, on a form prescribed by the Department of Revenue, with the board or governing authority, or both, requesting adoption of an ordinance exempting the applicant. The application must be filed in the year for which the exemption is desired.

New York provides credits against the franchise tax to encourage corporations to relocate to disadvantaged areas, designated as Empire Zones, and to stimulate private business development and create new jobs in those areas. To be eligible for the qualified empire zone enterprises (QEZE) credits, a business must be certified under New York General Municipal Law Section 18-B as a QEZE and meet the “employment test.”

Illinois has a Growing Economy Tax Credit Act that provides tax credits to businesses creating new jobs and making capital investments. A taxpayer that has entered into an agreement under the Growing Economy Tax Credit Act is allowed a credit against the tax. The Department of Revenue and the Illinois Business Investment Committee determine the amount and duration of the credit, which must not exceed 10 taxable years.

FISCAL IMPACT

This bill would not significantly impact the department’s costs.

ECONOMIC IMPACT

Revenue Estimate

This bill is not anticipated to impact significantly the amount of revenue associated with existing and future EZs, MEAs, TTA, and LAMBRAs.

Revenue Discussion

Data and information necessary to measure the revenue impact of allowing local governments to issue voucher certificates is not available; however, department staff anticipates that this bill would have insignificant impact on revenue currently associated with the MEA, TTA, and LAMBRA hiring credit.

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